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SIPDIS

DEPT FOR NEA/ARP(HARRIS) AND EEB/ESC/IEC(SULLIVAN)

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TAGS: [ECON](#) [EPET](#) [PGOV](#) [SA](#)

SUBJECT: CONOCOPHILLIPS ON PLANNED YANBU REFINERY, SAUDI
INVESTMENT CLIMATE

Classified By: DCM David Rundell, reasons 1.4 (b) and (d).

CORRECTED COPY. FIXED SUBJECT LINE.

SUMMARY

1. (C) ConocoPhillips President for the Middle East and North Africa Nick Spencer told DCM July 12 his company is committed to building the planned 400K barrel/day oil refinery in Yanbu with Saudi Aramco, with construction to begin next year and first production in 2014. Spencer said the Saudi investment climate has gotten better for foreign firms but remained challenging. He discussed plans to open offices in Riyadh, Jeddah, and/or Yanbu, which probably remain months away. End summary.

CONOCOPHILLIPS REFINERY BACK ON TRACK

2. (C) ConocoPhillips President for the Middle East and North Africa Nick Spencer (please protect) met DCM and Econcouns July 12 to discuss the company's planned \$6 billion refinery in Yanbu, 400 kilometers north of Jeddah along the Red Sea. Spencer said ConocoPhillips' plan is for the refinery to begin operations in the third quarter of 2014. He said it eventually will process 400 thousand barrels per day of Saudi heavy crude, which he described as "big by current standards, and fairly big by future standards." According to Spencer, the refinery will only produce fuels, and there is no plan to integrate it into any other plant (e.g., petrochemicals); he cited problems that the Saudi Aramco refinery at Ras Tanura in the Eastern Province has encountered in trying to do so. In addition to gasoline and diesel, Spencer said the refinery will produce sulfur for export to China and India, fuel coat for the power industry, and "a little bit of benzene." (Note: Another 400K barrels/day refinery is being built in the Royal Commission town of Jubail along the Persian Gulf coast, a mirror image of the ConocoPhillips refinery.)

SAUDI INVESTMENT CLIMATE

3. (C) Asked how ConocoPhillips found doing business in Saudi Arabia and the Gulf, Spencer said Saudi Aramco generally worked well with foreign firms. He noted that respect for property rights in Saudi Arabia had improved over the years, while concerns about security and quality of life still made it "an uphill battle" for his and other firms to persuade "the best people" to work here. He emphasized it was very important to do so, since the business climate in Saudi Arabia requires foreign firms to bring in highly capable personnel with "leadership to drive things, and technical skills to fill local capability gaps."

RE-OPENING AN OFFICE IN SAUDI ARABIA

14. (C) Spencer said he was visiting the Kingdom this time to gather information related to reestablishing offices in Riyadh, Jeddah, and/or Yanbu. He asked for the Embassy's assessment of the security situation and the King's support for political and legal reforms. Spencer and DCM agreed that having an office in Riyadh would be important to maintain contact with the Saudi national government, as opposed to solely Yanbu, which despite the King's July 14 visit (with the U.S. Treasury Secretary, septel), remained relatively isolated politically from the national government. The two agreed that Saudi leaders remembered which firms left Saudi Arabia when the Kingdom's security situation declined after the 9/11 attacks (and especially in 2003-04, at the height of the Al Qaeda insurrection in the Kingdom), and it would be important for ConocoPhillips to signal that it planned to remain in Saudi Arabia for many years to come. Spencer indicated that his firm had not selected where to open its Riyadh office; however, he mentioned that ConocoPhillips has maintained a villa in the Riyadh Diplomatic Quarter for years (vacant since the company closed its Riyadh office), which it plans to reoccupy. Spencer said opening offices in Saudi Arabia remained months away but he and his staff would begin traveling here more frequently in the coming weeks.

FAMILIES LIKELY TO BE HOUSED IN JEDDAH

15. (C) In a July 19 conversation with CG in Jeddah, Spencer said the company is looking to bring over 60-70 American/European employees on 3-4 year contracts but acknowledged the difficulty of recruitment. Spencer told the CG that in considering where to house personnel and their

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families, he was weighing factors such as the quality of schools, medical facilities, shopping centers, and recreational opportunities, as well as less tangible factors like Jeddah's relatively more open social environment. Spencer had expressed concern about the lack of an American/international school in Yanbu and said he understood the American school in Jeddah had "fizzled away" when many expatriate students departed following the December 2004 strike on U.S. Consulate General Jeddah. However, there is a school affiliated with the branch of the International Schools Group headquartered in Dhahran that is located in Yanbu, and after discovering that the American International School was still very much a growing concern, Spencer said his company was seriously considering locating families with children in Jeddah housing compounds and having employees commute to Yanbu for the work week.

COMMENT

16. (C) The Yanbu refinery was put on hold when oil prices dropped sharply last year, and many of our contacts questioned whether the company would remain committed to the project when the market seemed so volatile, unpredictable, and arguably unfavorable to the deal. Now, with oil prices rising again and construction materials cheaper, the project is back on track. A few local contacts have asserted that the project will remain unprofitable under nearly all likely economic scenarios, and therefore the refinery is only designed to help ConocoPhillips reestablish a presence in the Kingdom. Spencer acknowledged the political/symbolic significance of the planned refinery but made clear that his company believes the project will prove to be a good investment on its own, even without these other benefits.

ERDMAN